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Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10

L-03 NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03 SS-20

USIA-15 AID-20 EB-11 FRB-02 TRSE-00 XMB-07 OPIC-12

CIEP-02 LAB-06 SIL-01 OMB-01 ABF-01 FSE-00 STR-08

CEA-02 DRC-01 /185 W
---------- 110775
R 101900Z MAY 74
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 0266
INFO AMEMBASSY BERN
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY STOCKHOLM
AMEMBASSY THE HAGUE
AMEMBASSY TOKYO
USMISSION EC BRUSSELS
USMISSION OECD PARIS
USDOC WASHDC

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DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: N/A
TAGS: ECON, UK
SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING MAY 10

BEGIN SUMMARY: STERLING REMAINED STRONG AGAINST THE
DOLLAR REACHING $2.4355 (MAY 6) BUT CLOSED DOWN SLIGHTLY
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ON THURSDAY (MAY 9) AT $2.4315. AGAINST OTHER MAJOR

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CURRENCIES, STERLING LOST SOME GROUND WITH THE TRADE-WEIGHTED DEVALUATION WIDENING TO 17.40 PERCENT ON THURSDAY (MAY 9) COMPARED TO 16.97 PERCENT A WEEK AGO. GOLD FELL TO $160 ON WEDNESDAY (MAY 8) BUT RECOVERED TO $166 ON THURSDAY (MAY 9), DOWN $4 ON LAST THURSDAY'S CLOSE. LATEST CONFEDERATION OF BRITISH INDUSTRY (CBI) SURVEY AND FT MONTHLY BUSINESS SURVEY INDICATE SOME IMPROVEMENT IN BUSINESS CONFIDENCE BUT PROFITABILITY AND INCREASING COSTS ARE OF GREAT CONCERN. RETAIL SALES FIGURES AND THE LEVEL OF HIRE PURCHASE BUSINESS CONTINUE TO SHOW THE EFFECT OF DECEMBER MEASURES TO CUT CONSUMER SPENDING. END SUMMARY

1. STERLING, WHICH ROSE TO $2.4355 ON MONDAY, FELL BACK TO $2.4160 ON TUESDAY AS A RESULT OF THE STRIKE CALLED BY THE ENGINEERING UNION. THE STRIKE, WHICH COULD HAVE CRIPPLED MUCH OF BRITISH INDUSTRY, FORTUNATELY ONLY LASTED ONE DAY AND STERLING RECOVERED ON WEDNESDAY TO $2.4300. ON THURS-DAY, STERLING CLOSED AT $2.4315, UP 120 POINTS FROM LAST THURSDAY'S CLOSE. HOWEVER, ON A TRADE-WEIGHTED BASIS, STERLING'S DEVALUATION AGAINST SMITHSONIAN RATES WIDENED STEADILY BUT BY LESS THAN 1 PERCENT, REACHING 17.40 PER-CENT ON THURSDAY (MAY 9). GOLD FELL TO $160 ON WEDNESDAY (MAY 8), A TWO MONTH LOW. WHILE THE PRICE RECOVERED TO $166 ON THURSDAY, MANY SPECULATORS NOW FEEL MUCH LESS SURE THAT THE PRICE WILL REACH $200 IN THE NEAR FUTURE.

2. THE LATEST CBI INDUSTRIAL TRENDS SURVEY FOR APRIL 1974 INDICATES THAT WHILE BUSINESSMEN ARE STILL PESSIMISTIC ABOUT THE GENERAL BUSINESS SITUATION, THEY ARE LESS SO THAN THEY WERE IN JANUARY. OTHER RESULTS OF THE SURVEY ARE AS FOLLOWS: MANUFACTURING INDUSTRY AS A WHOLE IS AT PRESENT BUSY AND EXPECTS TO REMAIN SO AT LEAST IN THE SHORT TERM; BUOYANT INVESTMENT INTENTIONS OF 1973 ARE NO LONGER APPARENT; FIRMS ARE FACING A "HORRIFYING" ESCALA-TION IN COST PRESSURES; AND EXPORT TRENDS ARE STILL MODERATELY ENCOURAGING. THE FT MONTHLY SURVEY OF BUSINESS OPINION INDICATES BUSINESS CONFIDENCE HAS BEGUN TO RECOVER FROM THE WIDESPREAD PESSIMISM AND UNCERTAINTY OF RECENT MONTHS. HOWEVER, THE TREND OF COSTS AND PROFITABILITY CONTINUES TO CAUSE CONCERN, AND SOME COMPANIES ARE
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BECOMING WORRIED ABOUT THE OUTLOOK FOR ORDERS.

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CEA-02 DRC-01 /185 W
---------- 110811
R 101900Z MAY 74
FM AMEMBASSY LONDON
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INFO AMEMBASSY BERN
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3. THE INDEX OF THE VOLUME OF RETAIL SALES (S.A.) FOR MARCH WAS VIRTUALLY UNCHANGED FROM FEBRUARY AT 110.4 VERSUS 110.3 (1971100). IN THE FIRST QUARTER, THE VOLUME OF SALES WAS 2 PERCENT LESS THAN IN THE FOURTH QUARTER OF 1973. MARCH SAW A SLIGHT RECOVERY IN THE LEVEL OF INSTALL MENT CREDIT BUSINESS, WITH NEW LENDING AT 195 MILLION POUNDS (S.A.) COMPARED WITH 188 MILLION POUNDS IN FEBRUARY
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THE LEVEL OF LENDING IN THE FIRST QUARTER WAS 19 PERCENT LESS THAN FOURTH QUARTER 1973. THESE FIGURES ALL SHOW THE IMPACT OF MEASURES TAKEN IN DECEMBER TO SLOW CONSUMER SPENDING.

4. FORWARD DISCOUNTS ON STERLING, WHILE WIDENING A BIT AT MID-WEEK, NARROWED FROM LAST WEEK'S LEVELS.

	5/2	5/9	CHANGE
1 MONTH	0.95	0.62-1/2	DOWN 0.32-1/2
3 MONTHS	3.44	2.60	DOWN 0.84
6 MONTHS	7.35	6.40	DOWN 0.95

(ALL FIGURES IN CENTS)

5. LOCAL AUTHORITY DEPOSIT RATES MOVED DOWNWARD AT ONE MONTH, IN A MIXED FASHION AT THREE AND SIX MONTHS.

	5/2	5/9	CHANGE
1 MONTH	13	12-13/16	DOWN 3/16
3 MONTHS	13-5/8	13-9/16	DOWN 1/16
6 MONTHS	13-11/16	13-13/16	UP 1/8

6. EURODOLLAR RATES CONTINUED TO MOVE IN A MIXED PATTERN.

	5/2	5/9	CHANGE
1 MONTH	11-1/8	11-3/8	UP 1/4
3 MONTHS	11-1/8	11-9/16	UP 7/16
6 MONTHS	11	11-7/16	UP 7/16

7. THE MINIMUM LENDING RATE REMAINED UNCHANGED AT 12 PER-CENT ON FRIDAY, MAY 10, 1974.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
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Current Classification: UNCLASSIFIED
Concepts: DOLLAR, FOREIGN EXCHANGE, STERLING (CURRENCY), GOLD CRISIS
Control Number: n/a
Copy: SINGLE
Draft Date: 10 MAY 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
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Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
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Review Comment: n/a
Review Content Flags:
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Review Event:
Review Exemptions: n/a
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Subject: ECONOMIC DEVELOPMENTS - WEEK ENDING MAY 10 BEGIN SUMMARY: STERLING REMAINED STRONG AGAINST THE
TAGS: ECON, EFIN, UK
To: STATE
Type: TE
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